

CITY OF CASPIAN
AUDITED FINANCIAL STATEMENTS
IRON COUNTY, MICHIGAN

Fiscal Year Ended June 30, 2008

TABLE OF CONTENTS

	Page
Independent Auditor's Report	3
Management's Discussion and Analysis.	5
 <u>FINANCIAL STATEMENTS</u>	
Government Wide Statement of Net Assets	10
Government Wide Statement of Statement of Activities	11
Governmental Funds Balance Sheet	12
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets.	13
Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balance	14
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	15
Proprietary Funds Statement of Net Assets.	16
Proprietary Funds Statement of Revenues, Expenses and Changes in Net Assets	17
Proprietary Funds Statement of Cash Flows	18
Fiduciary Funds - Statement of Net Assets	19
Notes to Financial Statements	20
 <u>REQUIRED SUPPLEMENTAL INFORMATION</u>	
Budgetary Comparison Schedules:	
General Fund	33
Major Street Fund	34
Local Street Fund.	35
Tax Incremental Financing Fund	36
Pension Funding and Statistics	37
 <u>ADDITIONAL INFORMATION</u>	
Comparative Financial Statements:	
Water Utility Fund:	
Balance Sheet.	39
Statement of Revenues, Expenses and Changes in Retained Earnings	40
Statement of Cash Flows.	41
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting.	42

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council
City of Caspian
Caspian, Michigan 49915

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Caspian, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's elected officials and management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Caspian, Michigan, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 5 through 9 and 33 through 36, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Caspian, Michigan's basic financial statements. The introductory section, statistical tables and additional information section are presented for additional analysis and are not a required part of the basic financial statements. The additional information section has been subjected to auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.


Certified Public Accountant

August 26, 2008

CITY OF CASPIAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

The City as a Whole

The City's combined net assets increased 4.8% from a year ago - increasing from \$2.413 million to \$2.530 million. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities experienced a decrease of approximately \$55,000 during the year (8.4% decrease). This is attributed to an increase in employee benefit costs, significant expenditures on the Fishing Quarry and Trail Extension Projects (both recreational) as well as ordinary inflationary increases. The business-type activities experienced a \$172,000 increase in net assets, primarily due to the receipt of a federal Sewer Rehabilitation grant of \$182,000 with the corresponding costs capitalized as a part of the Sewer System Asset. While generating positive cash flow, charges in the water fund are not sufficient to make the fund profitable based on current expense levels. In a condensed format, the table below shows a comparison of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current Assets	\$ 315	\$ 359	\$ 229	\$ 172	\$ 544	\$ 531
Noncurrent Assets	<u>470</u>	<u>470</u>	<u>2,718</u>	<u>2,622</u>	<u>3,188</u>	<u>3,092</u>
Total Assets	\$ 785	\$ 829	\$ 2,947	\$ 2,794	\$3,732	\$3,623
Long-Term Debt Outstanding	\$ 126	\$ 128	\$ 976	\$ 994	\$1,102	\$1,122
Other Liabilities	<u>60</u>	<u>47</u>	<u>40</u>	<u>41</u>	<u>100</u>	<u>88</u>
Total Liabilities	\$ 186	\$ 175	\$ 1,016	\$ 1,035	\$1,202	\$1,210
Net Assets						
Invested in Capital Assets—Net of Debt	\$ 438	\$ 440	\$ 1,683	\$ 1,550	\$2,121	\$1,990
Restricted	32	30	79	78	111	108
Unrestricted (Deficit)	<u>129</u>	<u>184</u>	<u>169</u>	<u>131</u>	<u>298</u>	<u>315</u>
Total Net Assets	\$ 599	\$ 654	\$ 1,931	\$ 1,759	\$2,530	\$2,413

CITY OF CASPIAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

Unrestricted net assets—the part of net assets that can be used to finance day to day operations, decreased by \$55,000 for the governmental activities. The current level of unrestricted net assets for our governmental activities stands at \$129,000. The reasons for the decrease are described in the paragraph above. The Unrestricted net assets increased by \$38,000 bringing the total to \$169,000. This is attributed to depreciation being included in the Invested in Capital Assets section of net assets.

The City's net assets continue to remain healthy at the financial statement date. The downward trend in Change in Net Assets over the past few years is a concern.

The following table shows the changes of the net assets (in thousands of dollars) as of the current date to the prior year:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Program Revenues						
Charges for Services	\$ 80	\$ 79	\$ 338	\$ 314	\$ 418	\$ 393
Operating Grants and Contributions	129	130	0	4	129	134
Capital Grants and Contributions	22	0	182	0	204	0
General Revenues						
Property Taxes	\$ 263	\$ 264	\$ 0	\$ 0	\$ 263	\$ 264
State-Shared Revenues	176	158	0	0	176	158
Unrestricted Investment Earnings	33	29	4	10	37	39
Reimbursements	0	3	0	0	0	3
Sale of property	2	5	0	0	2	5
Transfers and Other Revenue	<u>9</u>	<u>2</u>	<u>0</u>	<u>0</u>	<u>9</u>	<u>2</u>
Total Revenues	\$ 714	\$ 670	\$ 524	\$ 328	\$1,238	\$ 998
Program Expenses						
General Government	\$ 131	\$ 144	\$ 0	\$ 0	\$ 131	\$ 144
Public Safety	111	95	0	0	111	95
Public Works	269	268	0	0	269	268
Employee benefits	144	123	0	0	144	123
Insurance	17	23	0	0	17	23
Recreation & Culture	92	22	0	0	92	22
Interest on Long-Term Debt	6	6	0	0	6	6
Water & Sewer	<u>0</u>	<u>0</u>	<u>352</u>	<u>342</u>	<u>352</u>	<u>342</u>
Total Expenses	\$ <u>770</u>	\$ <u>681</u>	\$ <u>352</u>	\$ <u>342</u>	\$ <u>1,122</u>	\$ <u>1,023</u>
Change in Net Assets	\$ (56)	\$ (11)	\$ 172	\$ (14)	\$ 116	\$ (25)

CITY OF CASPIAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

Governmental Activities

The City's total governmental revenues increased by approximately \$44,000. The increase is attributable to federal grants (\$22,000) received to procure a police vehicle and fire equipment and an increase in State Shared Revenues.

Cash expenditures increased by more than \$89,000 during the year. This is due to improvement for the recreation projects explained above and increasing costs for employee. Other expenditures increased by approximately normal inflationary rates.

Business-Type Activities

The City's business-type activities consist of the Water and Sewer Funds. The City provides water to residents, which comes from the City's own water system. The City also provides sewage treatment to residents, through the West Iron County Sewage Authority. Charges for services increased in the Water Fund by \$2,000 while a charge increase in the Sewer Fund resulted in increased revenues of \$22,000. The balance of the revenue increase is the result of a federal Sewer Rehabilitation grant. The decrease in water usage resulted in a lowering of operating expenses of \$22,000 so the net operating loss decreased from \$27,000 to \$10,000. The increased performance in the utility funds resulted in an increase in net revenues in both funds.

The City's Funds

Analysis of the City's major funds begins on page 12, following the entity-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as a special property tax millage. The City's major funds for 2007-2008 include the General Fund, Major Street Fund, Local Street Fund, Tax Incremental Financing Fund, Water Fund and Sewer Fund.

The General Fund pays for most of the City's governmental services. The most significant are general maintenance of city property and building, maintaining the City's equipment, police and fire services and general administration. These services are primarily funded from property taxes assessed to the residents of the City and revenues shared with the State of Michigan.

General Fund Budgetary Highlights

Over the course of the year, the City Council did not amend the budget for various expenditures and projects. The most significant variations during the 2007-2008 year occurred with an increase in property tax revenues, a increase in state shared revenues and three federal grants received and the

CITY OF CASPIAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

required associated expenditures. Both revenues and expenditures exceeded budgeted amounts in various areas as outlined in the footnotes to the financial statements.

Capital Asset and Debt Administration

At the end of 2007-2008, the City had a broad range of capital assets, including snow removal equipment, police and fire equipment, water and sewer systems. In addition, the City has invested significantly in roads and buildings within the City with a net book value of \$3.076 million. The cost value of the roads and buildings acquired prior to July 1, 2003, are not required to be reported in the City's financial statements under accounting principles generally accepted in the United States of America. Consequently, the cost of the roads and buildings acquired prior to the 2003-2004 fiscal year are not included in these financial statements.

The City financed its capital needs during the year from its current year revenues (primarily grants) and the accumulated fund balance or retained earnings.

Economic Factors and Next Year's Budgets and Rates

The City's budget for 2007-2008 calls for a freeze on property tax rates. This can be accomplished because of the controls that are being placed on governmental fund expenditures. Because of the impact of Proposal A, however, the City needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than the inflationary rate, the mathematical result of this is that the total taxable value for the City will grow at a rate less than inflation, before considering new property additions.

Contacting the City's Management

This financial report is intended to provide the citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the manager's office.

FINANCIAL
STATEMENTS

CITY OF CASPIAN
GOVERNMENT WIDE STATEMENT OF NET ASSETS
June 30, 2008

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNIT
ASSETS				
CURRENT ASSETS				
Cash and equivalents	\$ 261,695	\$ 197,262	\$ 458,957	\$ 3,740
Receivables - net	<u>53,231</u>	<u>31,985</u>	<u>85,216</u>	<u>3,302</u>
TOTAL CURRENT ASSETS	\$ 314,926	\$ 229,247	\$ 544,173	\$ 7,042
RESTRICTED ASSETS - Cash and equivalents	\$ 31,731	\$ 78,495	\$ 110,226	\$ 0
NON-CURRENT ASSETS				
Property and equipment, net of depreciation	\$ <u>438,229</u>	\$ <u>2,639,398</u>	\$ <u>3,077,627</u>	\$ <u>0</u>
TOTAL ASSETS	\$ 784,886	\$ 2,947,140	\$ 3,732,026	\$ 7,042
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	\$ 45,305	\$ 20,657	\$ 65,962	\$ 441
Accrued and other liabilities	9,905	19,367	29,272	0
Current part of non-current liabilities	<u>5,008</u>	<u>0</u>	<u>5,008</u>	<u>0</u>
TOTAL CURRENT LIABILITIES	\$ 60,218	\$ 40,024	\$ 100,242	\$ 441
LIABILITIES PAYABLE FROM RESTRICTED ASSETS	\$ 0	\$ 20,000	\$ 20,000	\$ 0
NON-CURRENT LIABILITIES				
Compensated absences	\$ 38,595	\$ 0	\$ 38,595	\$ 0
Loan payable	87,295	0	87,295	0
Revenue bonds payable	<u>0</u>	<u>956,000</u>	<u>956,000</u>	<u>0</u>
TOTAL NON-CURRENT LIABILITIES	\$ <u>125,890</u>	\$ <u>956,000</u>	\$ <u>1,081,890</u>	\$ <u>0</u>
TOTAL LIABILITIES	\$ <u>186,108</u>	\$ <u>1,016,024</u>	\$ <u>1,202,132</u>	\$ <u>441</u>
NET ASSETS				
Invested in capital assets, net of related debt	\$ 438,229	\$ 1,683,398	\$ 2,121,627	\$ 0
Restricted for				
Capital projects	31,731	15	31,746	0
Debt service	0	78,480	78,480	0
Unrestricted	<u>128,818</u>	<u>169,223</u>	<u>298,041</u>	<u>6,601</u>
TOTAL NET ASSETS	\$ <u>598,778</u>	\$ <u>1,931,116</u>	\$ <u>2,529,894</u>	\$ <u>6,601</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF CASPIAN
GOVERNMENT WIDE STATEMENT OF ACTIVITIES
Year ended June 30, 2008

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET REVENUE (EXPENSE) AND CHANGES IN NET ASSETS			
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT			COMPONENT UNIT
					GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
Governmental Activities								
General government	\$ 131,602	\$ 0	\$ 0	\$ 0	\$ (131,602)		\$ (131,602)	
Public safety	110,957	0	0	22,000	(88,957)		(88,957)	
Public works	268,785	79,507	129,455	0	(59,823)		(59,823)	
Recreation and culture	92,214	644	0	0	(91,570)		(91,570)	
Employee benefits	144,221	0	0	0	(144,221)		(144,221)	
Insurance	17,259	0	0	0	(17,259)		(17,259)	
Interest on long-term debt	5,547	0	0	0	(5,547)		(5,547)	
TOTAL GOVERNMENTAL ACTIVITIES	\$ 770,586	\$ 80,151	\$ 129,455	\$ 22,000	\$ (538,980)		\$ (538,980)	
Business-Type Activities								
Water	\$ 206,703	\$ 148,300	\$ 0	\$ 0		\$ (58,403)	\$ (58,403)	
Sewer	145,913	190,038	0	182,000		226,125	226,125	
TOTAL BUSINESS-TYPE ACTIVITIES	\$ 352,616	\$ 338,338	\$ 0	\$ 182,000		\$ 167,722	\$ 167,722	
TOTAL PRIMARY GOVERNMENT	\$ 1,123,202	\$ 418,489	\$ 129,455	\$ 204,000	\$ (538,980)	\$ 167,722	\$ (371,258)	
Component unit - Caspian Recreation Association	\$ 10,974	\$ 0	\$ 0	\$ 0				\$ (10,974)
GENERAL REVENUES								
Property taxes					\$ 263,078	\$ 0	\$ 263,078	\$ 10,160
State shared revenues and grants					175,612	0	175,612	0
Unrestricted investments earnings					33,083	4,404	37,487	70
Reimbursements					184	0	184	0
Other					9,424	0	9,424	0
SPECIAL ITEM - Sale of property					2,001	0	2,001	0
TOTAL GENERAL REVENUES AND SPECIAL ITEMS					\$ 483,382	\$ 4,404	\$ 487,786	\$ 10,230
CHANGE IN NET ASSETS								
Net assets - beginning					\$ (55,598)	\$ 172,126	\$ 116,528	\$ (744)
					654,376	1,758,990	2,413,366	7,345
NET ASSETS - ENDING					\$ 598,778	\$ 1,931,116	\$ 2,529,894	\$ 6,601

The Notes to Financial Statements are an integral part of this statement.

CITY OF CASPIAN
GOVERNMENTAL FUNDS BALANCE SHEET
COMBINED BALANCE SHEET
June 30, 2008

	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND	TAX INCREMENTAL FINANCING FUND	TOTAL PRIMARY GOVERNMENTAL FUNDS	COMPONENT UNIT
ASSETS						
Cash and equivalents	\$ 142,839	\$ 26,766	\$ 15,773	\$ 108,048	\$ 293,426	\$ 3,740
Taxes receivable - net	0	0	0	0	0	0
Accounts receivable	7,730	0	0	0	7,730	0
Due from other funds	0	0	0	435	435	0
Due from primary government	0	0	0	0	0	3,302
Due from other governmental units	<u>27,285</u>	<u>12,604</u>	<u>5,177</u>	<u>0</u>	<u>45,066</u>	<u>0</u>
TOTAL ASSETS	\$ <u>177,854</u>	\$ <u>39,370</u>	\$ <u>20,950</u>	\$ <u>108,483</u>	\$ <u>346,657</u>	\$ <u>7,042</u>
LIABILITIES						
Accounts payable	\$ 41,254	\$ 3,596	\$ 110	\$ 345	\$ 45,305	\$ 441
Accrued payroll	6,134	93	46	0	6,273	0
Due to other funds	349	0	0	0	349	0
Due to component unit	3,283	0	0	0	3,283	0
Due to other governmental units	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL LIABILITIES	\$ 51,020	\$ 3,689	\$ 156	\$ 345	\$ 55,210	\$ 441
FUND BALANCES						
Reserved for						
Capital projects	\$ 31,731	\$ 0	\$ 0	\$ 0	\$ 31,731	\$ 0
Unreserved	<u>95,103</u>	<u>35,681</u>	<u>20,794</u>	<u>108,138</u>	<u>259,716</u>	<u>6,601</u>
TOTAL FUND EQUITY	\$ <u>126,834</u>	\$ <u>35,681</u>	\$ <u>20,794</u>	\$ <u>108,138</u>	\$ <u>291,447</u>	\$ <u>6,601</u>
TOTAL LIABILITIES AND FUND EQUITY	\$ <u>177,854</u>	\$ <u>39,370</u>	\$ <u>20,950</u>	\$ <u>108,483</u>	\$ <u>346,657</u>	\$ <u>7,042</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF CASPIAN
RECONCILIATION OF BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2008

Total fund balance - total governmental funds	\$ 291,447
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	438,229
Long term liabilities:	
Loan not due and payable within the current period and not reported in the funds	(92,303)
Accumulated employee vacation and personal pay not used in current period	<u>(38,595)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES \$	<u><u>598,778</u></u>

CITY OF CASPIAN
GOVERNMENTAL FUNDS STATEMENT OF REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCE
Year ended June 30, 2008

	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND	TAX INCREMENTAL FINANCING FUND	TOTAL GOVERNMENTAL FUNDS	COMPONENT UNIT
REVENUES						
Property taxes	\$ 204,134	\$ 0	\$ 0	\$ 58,944	\$ 263,078	\$ 10,160
Federal grants	22,000	0	0	0	22,000	0
State shared revenues and grants	175,612	95,935	33,520	0	305,067	0
Fines and forfeitures	264	0	0	0	264	0
Charges for services	80,151	0	0	0	80,151	0
Interest and rentals	96,307	110	132	2,059	98,608	70
Sale of property	2,001	0	0	0	2,001	0
Reimbursements	184	0	0	0	184	0
Other	9,160	0	0	0	9,160	0
TOTAL REVENUES	\$ 589,813	\$ 96,045	\$ 33,652	\$ 61,003	\$ 780,513	\$ 10,230
EXPENDITURES						
Current						
General government	\$ 129,160	\$ 0	\$ 0	\$ 500	\$ 129,660	\$ 10,974
Public safety	84,756	0	0	0	84,756	0
Public works	180,040	98,016	36,216	0	314,272	0
Recreation	69,985	0	0	12,133	82,118	0
Employee benefits	140,883	0	0	0	140,883	0
Insurance	17,259	0	0	0	17,259	0
Capital outlay	33,906	0	0	15,479	49,385	0
Debt service	0	0	0	10,257	10,257	0
TOTAL EXPENDITURES	\$ 655,989	\$ 98,016	\$ 36,216	\$ 38,369	\$ 828,590	\$ 10,974
EXCESS OF REVENUES						
OVER (UNDER) EXPENDITURES	\$ (66,176)	\$ (1,971)	\$ (2,564)	\$ 22,634	\$ (48,077)	\$ (744)
OTHER FINANCING SOURCES (USES)						
Transfers in	\$ 0	\$ 0	\$ 1,500	\$ 0	\$ 1,500	\$ 0
Transfers (out)	(1,500)	0	0	0	(1,500)	0
TOTAL OTHER FINANCING SOURCES (USES)	\$ (1,500)	\$ 0	\$ 1,500	\$ 0	\$ 0	\$ 0
EXCESS OF REVENUES AND OTHER SOURCES						
OVER (UNDER) EXPENDITURES AND OTHER USES	\$ (67,676)	\$ (1,971)	\$ (1,064)	\$ 22,634	\$ (48,077)	\$ (744)
Fund balance - beginning	194,510	37,652	21,858	85,504	339,524	7,345
FUND BALANCE - JUNE 30	\$ 126,834	\$ 35,681	\$ 20,794	\$ 108,138	\$ 291,447	\$ 6,601

The Notes to Financial Statements are an integral part of this statement.

CITY OF CASPIAN
RECONCILIATION OF STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
Year ended June 30, 2008

Net change in fund balance - total governmental funds	\$ (48,077)
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Amounts reported for governmental activities in the Statement
of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities these costs are allocated over their estimated useful life and reported as depreciation.	(2,024)
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Remove carrying value of long term accounts receivable deemed not collectible	(6,869)
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Repayments of loan principal is an expenditure in the governmental funds but not in the Statement of Activities (where it reduces long-term debt).	4,710
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Increases in accumulated employee vacation and personal pay are recorded when earned in the Statement of Activities.	<u>(3,338)</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u><u>(55,598)</u></u>
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CITY OF CASPIAN
 PROPRIETARY FUNDS STATEMENT OF NET ASSETS
 June 30, 2008

	<u>WATER UTILITY</u>	<u>SEWER UTILITY</u>	<u>TOTAL</u>
ASSETS			
Current Assets			
Cash and equivalents	\$ 137,606	\$ 59,656	\$ 197,262
Accounts receivable	12,871	19,114	31,985
Due from other governmental units	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL CURRENT ASSETS	\$ 150,477	\$ 78,770	\$ 229,247
Noncurrent Assets			
Restricted cash and equivalents	\$ 78,480	\$ 15	\$ 78,495
Capital assets, net	<u>2,283,773</u>	<u>355,625</u>	<u>2,639,398</u>
TOTAL NONCURRENT ASSETS	\$ 2,362,253	\$ 355,640	\$ 2,717,893
TOTAL ASSETS	<u>\$ 2,512,730</u>	<u>\$ 434,410</u>	<u>\$ 2,947,140</u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 966	\$ 19,691	\$ 20,657
Accrued expenses	<u>19,049</u>	<u>318</u>	<u>19,367</u>
TOTAL CURRENT LIABILITIES	\$ 20,015	\$ 20,009	\$ 40,024
Noncurrent Liabilities			
Current liabilities payable from restricted assets	\$ 20,000	\$ 0	\$ 20,000
Revenue bonds payable	<u>956,000</u>	<u>0</u>	<u>956,000</u>
TOTAL NONCURRENT LIABILITIES	\$ 976,000	\$ 0	\$ 976,000
TOTAL LIABILITIES	<u>\$ 996,015</u>	<u>\$ 20,009</u>	<u>\$ 1,016,024</u>
NET ASSETS			
Invested in capital assets-net of related debt	\$ 1,327,773	\$ 355,625	\$ 1,683,398
Restricted for debt service	78,480	0	78,480
Restricted for construction	0	15	15
Unrestricted	<u>110,462</u>	<u>58,761</u>	<u>169,223</u>
TOTAL NET ASSETS	<u>\$ 1,516,715</u>	<u>\$ 414,401</u>	<u>\$ 1,931,116</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF CASPIAN
 PROPRIETARY FUNDS STATEMENT OF REVENUES,
 EXPENSES AND CHANGES IN NET ASSETS
 Year ended June 30, 2008

	<u>WATER UTILITY</u>	<u>SEWER UTILITY</u>	<u>TOTAL</u>
OPERATING REVENUES			
Metered sales	\$ 147,225	\$ 187,236	\$ 334,461
Water taps and other services	<u>1,075</u>	<u>2,802</u>	<u>3,877</u>
TOTAL OPERATING REVENUES	\$ 148,300	\$ 190,038	\$ 338,338
OPERATING EXPENSES			
Personal services	\$ 27,320	\$ 13,646	\$ 40,966
Employee benefits	26,454	13,203	39,657
Supplies	6,483	30	6,513
Purchased services	2,753	110,088	112,841
Equipment rental	6,095	2,032	8,127
Utilities	9,878	0	9,878
Other	1,773	550	2,323
Depreciation	<u>81,554</u>	<u>6,364</u>	<u>87,918</u>
TOTAL OPERATING EXPENSES	\$ <u>162,310</u>	\$ <u>145,913</u>	\$ <u>308,223</u>
OPERATING INCOME (LOSS)	\$ (14,010)	\$ 44,125	\$ 30,115
NONOPERATING REVENUES (EXPENSES)			
Interest earned	\$ 4,065	\$ 339	\$ 4,404
Federal grant	0	182,000	182,000
Interest expense	<u>(44,393)</u>	<u>0</u>	<u>(44,393)</u>
TOTAL NONOPERATING REVENUE (EXPENSE)	\$ <u>(40,328)</u>	\$ <u>182,339</u>	\$ <u>142,011</u>
NET INCOME (LOSS)	\$ (54,338)	\$ 226,464	\$ 172,126
Total net assets - beginning	<u>1,571,053</u>	<u>187,937</u>	<u>1,758,990</u>
TOTAL NET ASSETS - ENDING	\$ <u><u>1,516,715</u></u>	\$ <u><u>414,401</u></u>	\$ <u><u>1,931,116</u></u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF CASPIAN
PROPRIETARY FUNDS STATEMENT OF CASH FLOW
Year ended June 30, 2008

	<u>WATER</u> <u>UTILITY</u>	<u>SEWER</u> <u>UTILITY</u>	<u>TOTAL</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 153,959	\$ 192,114	\$ 346,073
Payments to suppliers	(26,613)	(113,588)	(140,201)
Payments to or on behalf of employees	<u>(53,553)</u>	<u>(26,842)</u>	<u>(80,395)</u>
CASH FLOWS FROM OPERATING ACTIVITIES	\$ 73,793	\$ 51,684	\$ 125,477
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal and interest paid on capital debt	\$ (62,731)	\$ 0	\$ (62,731)
Capital grant proceeds	0	182,000	182,000
Purchases of capital assets	0	(201,594)	(201,594)
Funding of restricted accounts	<u>17,655</u>	<u>(15)</u>	<u>17,640</u>
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING	\$ (45,076)	\$ (19,609)	\$ (64,685)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earned	\$ <u>4,065</u>	\$ <u>339</u>	\$ <u>4,404</u>
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	\$ 32,782	\$ 32,414	\$ 65,196
Cash and equivalents - beginning	<u>104,824</u>	<u>27,242</u>	<u>132,066</u>
CASH AND EQUIVALENTS - ENDING	\$ <u>137,606</u>	\$ <u>59,656</u>	\$ <u>197,262</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (14,010)	\$ 44,125	\$ 30,115
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities			
Depreciation	81,554	6,364	87,918
Change in Assets and Liabilities			
Receivables - net	5,659	2,076	7,735
Accounts payable	369	(888)	(519)
Accrued payroll expense	<u>221</u>	<u>7</u>	<u>228</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u>73,793</u>	\$ <u>51,684</u>	\$ <u>125,477</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF CASPIAN
FIDUCIARY FUNDS - STATEMENT OF NET ASSETS
June 30, 2008

		<u>AGENCY FUND TYPE</u> <u>(Tax Collections)</u>
ASSETS		
Cash and equivalents	\$	476
Due from other funds		23
Due from other governmental units		<u>351</u>
TOTAL ASSETS	\$	<u><u>850</u></u>
LIABILITIES		
Due to other funds	\$	109
Due to other governmental units		741
Due to taxpayers		<u>0</u>
TOTAL LIABILITIES	\$	<u><u>850</u></u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE A-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Caspian (City) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

I. Reporting Entity

The City is governed by an elected five member council (Council). The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations.

DISCRETELY PRESENTED COMPONENT UNIT

The following component unit is reported within the "component unit" column in the government wide financial statements. The discretely presented component unit is an entity that is legally separate from the City of Caspian, but for which the City is financially accountable, or its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete.

Caspian Recreation Association

The Caspian Recreation Association is governed by a board of trustees appointed by the City Council. Its purpose is to provide recreational opportunities for the citizens of the City of Caspian by operating and maintaining a recreational center and surrounding property located in the City. The citizens of the City of Caspian have approved a 0.9768 mill levy on property located within the City. The levy of one mill was renewed in 2008 and resulted in revenues during the fiscal year of \$10,160. Separate financial statements are not prepared and as such are included as part of this report.

Jointly Governed Organizations

Caspian-Gaastra Fire Authority

The Cities of Caspian and Gaastra participate jointly in the operation of the Caspian-Gaastra Fire Authority. Each city appoints two board members to the fire authority's governing board with the governing board appointing a fifth member. All of the financial operations of the Authority are recorded in a separate set of financial records and are available at the City of Gaastra offices.

The funding formula approved by the members of the Local Units is based pro rata on each unit's population. The City's contribution to the Fire Authority for the audit period was \$17,233 from its general fund for operations and \$10,257 from its Tax Incremental Financing Fund for debt retirement.

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Jointly Governed Organizations (Continued)

West Iron County Sewage Authority

The City is one of five municipalities participating jointly in the Sewage Authority. All of the financial operations of the Authority are recorded in a separate set of financial records and are available at the Sewage Authority Offices.

The funding formula approved by the members of the Local Units is based pro rata on each unit's population. The City's contribution to the Sewage Authority for the audit period was \$109,968.

II. Government-Wide and Fund Financial Statements

The government-wide statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

III. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

III. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Taxes Receivable—Current Property Taxes

The City property tax is levied on each July 1st on the taxable valuation of property (as defined by State statutes) located in the City as of the preceding December 31st.

The City's 2007 ad valorem tax is levied and collectible on July 1, 2007. It is the City's policy to recognize revenue from the current tax levy when the tax is levied for real property and when collected for personal property as the amounts are then "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2007 taxable valuation of the City totaled \$12.085 million, on which ad valorem taxes levied consisted of 19.5377 mills for the City operating purposes, raising \$204,134 for financing operations. This amount is recognized in the General Fund financial statements as property taxes.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on Major Streets.

The Local Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on Local Streets.

The Tax Incremental Financing Fund accounts for the taxes collected that are restricted for use in the Tax Incremental Financing District and the payment of obligated loans.

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

III. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

The government reports the following major proprietary funds:

The Water Fund accounts for the activities of the water distribution system.

The Sewer Fund accounts for the activities of the sewer collection system.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary funds relate to charges to customers for sales and services. The water and sewer funds also recognize the portion of the fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Bank Deposits and Investments—Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of six months or less when acquired. Investments are stated at fair value.

Receivables and Payables—In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "due to/from other funds."

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

III. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items— Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets— The revenue bonds of the enterprise funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

Capital Assets— Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The infrastructure assets acquired prior to July 1, 2003, have been excluded from the financial statements in compliance with Governmental Accounting Standards Board Statement No. 34. The value of future acquisitions of infrastructure assets will be capitalized and depreciated.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Water and Sewer Lines	40 to 60 years
Roads	10 to 30 years
Other Infrastructure	10 to 40 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

III. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Compensated Absences (Vacation, Personal and Sick Leave)— It is the government's policy to permit employees to accumulate earned but unused vacation, personal and sick pay benefits. A liability for unpaid accumulated sick leave cannot be determined since the government pays one half of the accumulated sick leave but only after 10 consecutive years of employment and upon retirement from the City. All vacation and personal leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year-end.

Long-Term Obligations— In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity— In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data/Reclassifications— Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information— Annual budgets are adopted on a cash basis. All annual appropriations lapse at fiscal year end. The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. (i.e., The level at which expenditures may not legally exceed appropriations.)

Excess of Expenditures Over Appropriations in Budgeted Funds— During the year, the City incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE B-STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

Excess of Expenditures Over Appropriations in Budgeted Funds (Continued)

Budget Item	Budget Appropriation	Actual Expenditure
General - City Council	\$ 2,000	\$ 3,872
General - City Manager	20,000	27,732
General - Treasurer	14,500	16,511
General - Tax Administration	6,000	6,107
General - Elections	1,500	3,701
General - Counsel	11,000	15,984
General - Audit	7,500	7,764
General - Building and Grounds	25,000	41,195
General - Police	60,200	67,244
General - Street Lighting	13,000	17,430
General - Refuse	57,000	62,398
General - Fishing Quarry	0	52,071
General - Trail Extension	0	11,266
General - Insurance	20,500	22,679
General - Capital Outlay	0	33,906
General - transfers out	0	1,500
Major Streets - Street sweeping	1,000	3,607
Major Streets - Roadside Maintenance	300	6,056
Major Streets - Traffic Services	0	2,109
Major Streets - Winter Maintenance	30,700	64,622
Major Streets - Administration	6,500	6,965
Local Streets - Street Sweeping	900	5,069
Local Streets - Administration	3,000	4,642
Tax Incremental Finance - Other Improvements	0	500
Tax Incremental Finance - Community Betterment	0	12,133

NOTE C - DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan; bond securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE C - DEPOSITS AND INVESTMENTS (CONTINUED)

investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The City has designated three banks and one investment organization for the deposit of City funds. The investments policy adopted by the board in accordance with Public Act 196 of 1997, as amended, had authorized investment in bonds and securities of the United States government and its agencies and bank time deposit accounts but not the remainder of State statutory authority as listed above. The City's deposits and investment policy are in accordance with statutory authority.

At year-end, the Local Unit's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total Primary Government	Component Unit
Cash & Cash Equivalents	\$ 261,695	\$ 197,262	\$ 476	\$ 459,433	\$ 3,740
Restricted Assets	31,731	110,226	0	141,957	0
Total	<u>\$ 293,426</u>	<u>\$ 307,488</u>	<u>\$ 476</u>	<u>\$ 601,390</u>	<u>\$ 3,740</u>

All of the cash and equivalents have been placed in bank accounts at the various approved financial institutions. The primary government bank balance is \$601,390 of which \$361,491 is covered by federal depository insurance and the entire component unit cash balance is covered by federal depository insurance.

NOTE D - ACCUMULATED DEFICITS

The City does not have accumulated deficits in its unreserved fund balance or retained earnings accounts in any of its funds.

NOTE E - INTERFUND TRANSFERS, RECEIVABLES AND PAYABLE

The City Council approved and transferred \$1,500 from the General Fund to the Local Street Fund to comply with the funding requirements of Michigan statutes.

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE E - INTERFUND TRANSFERS, RECEIVABLES AND PAYABLE (CONTINUED)

The June 30, 2008 balances of interfund receivables and payables are as follows:

<u>Due From</u>	<u>Due to</u>	<u>Amount</u>
General	Tax Incremental Finance	\$ 326
General	Tax	23
General	Caspian Recreation Assoc	3,283
Tax	Tax Incremental Finance	109

NOTE F - CHANGES IN CAPITAL ASSETS

Capital asset activity for the City for the year ended June 30, 2008 was as follows:

	Beginning	Additions	Disposals	Ending
Governmental Funds				
Assets not depreciated - Land	\$ 18,000	\$ 0	\$ 0	\$ 18,000
Assets depreciated				
Buildings	136,519	0	0	136,519
Equipment	<u>422,092</u>	<u>49,385</u>	<u>0</u>	<u>471,477</u>
Total at Historic Cost	\$ 576,611	\$ 49,385	\$ 0	\$ 625,996
Less Accumulated Depreciation for:				
Buildings	\$ 15,193	\$ 3,883	\$ 0	\$ 19,076
Equipment	<u>121,165</u>	<u>47,527</u>	<u>0</u>	<u>168,692</u>
Total Accumulated Depreciation	\$ 136,358	\$ 51,410	\$ 0	\$ 187,768
Net Governmental Funds - Capital Assets	<u>\$ 440,253</u>			<u>\$ 438,228</u>
Business Type Funds				
Assets depreciated				
Sewer utility system	\$ 165,783	\$ 201,594	\$ 0	\$ 367,377
Water utility system	<u>3,255,134</u>	<u>0</u>	<u>0</u>	<u>3,255,134</u>
Total at Historic Cost	\$3,420,917	\$ 201,594	\$ 0	\$3,622,511
Less Accumulated Depreciation for:				
Sewer utility system	\$ 5,388	\$ 6,364	\$ 0	\$ 11,752
Water utility system	<u>889,807</u>	<u>81,554</u>	<u>0</u>	<u>971,361</u>
Total Accumulated Depreciation	\$ 895,195	\$ 87,918	\$ 0	\$ 983,113
Net Business Type Funds - Capital Assets	<u>\$2,525,722</u>			<u>\$2,639,398</u>

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE F - CHANGES IN CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to programs of the City as follows:

Governmental Activities

General Government	\$ 1,942
Public Safety	19,332
Public Works	20,040
Parks and Recreation	<u>10,096</u>

Total Governmental Activities \$ 51,410

Business Type Activities

Water	\$ 6,364
Sewer	<u>81,554</u>

Total Business Type Activities \$ 87,918

NOTE G - CHANGES IN LONG TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Revenue bonds involve a pledge of specific income derived from the acquisition or constructed assets to pay the associated debt service.

Bond and contractual obligation activity can be summarized as follows:

	<u>Interest Rate</u>	<u>Principal Matures</u>	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Type Activities						
General Obligation Bonds						
1993 Fire Hall Bonds	5.75%	10-Apr-21	\$ 97,013	\$ (4,710)	\$ 92,303	\$ 5,008
Total Governmental Type Activities			<u>\$ 97,013</u>	<u>\$ (4,710)</u>	<u>\$ 92,303</u>	<u>\$ 5,008</u>
Business Type Activities						
Revenue Bonds						
1995 Water System Bonds	4.50%	01-Feb-35	\$ 994,000	\$ (18,000)	\$976,000	\$ 18,000
Total Governmental Type Activities			<u>\$ 994,000</u>	<u>\$ (18,000)</u>	<u>\$976,000</u>	<u>\$ 18,000</u>

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE G - CHANGES IN LONG TERM DEBT (CONTINUED)

Annual debt service requirements to maturity for the above obligations are as follows:

Year end June 30	<u>Government Type Activities</u>		<u>Business Type Activities</u>	
	Principal	Interest	Principal	Interest
2009	5,008	5,249	20,000	43,920
2010	5,307	4,949	20,000	43,020
2011	5,625	4,632	22,000	42,120
2012	5,950	4,306	22,000	41,130
2013	6,318	3,938	24,000	40,140
2014-2018	37,733	13,551	132,000	183,870
2019-2023	26,362	2,271	158,000	151,830
2024-2028	0	0	186,000	114,030
2029-2033	0	0	250,000	67,275
2034-2035	<u>0</u>	<u>0</u>	<u>142,000</u>	<u>9,630</u>
Totals	<u>\$ 92,303</u>	<u>\$ 38,896</u>	<u>\$ 976,000</u>	<u>\$ 736,965</u>

NOTE H - PENSION PLAN

The City contributes to the Michigan Municipal Retirement System (MERS), a multiple-employer public retirement system that acts as a common investment and administrative agent for municipalities in the State of Michigan.

All full-time City employees and officers are eligible to participate in the MERS. Benefits vest after ten years of service. Normal retirement provisions of the MERS apply to participants who retire at or after age 60 with at least 10 years of credited service.

The annual retirement benefits of covered employees vary depending on the valuation division. The annual retirement benefits are 2.50% of final average compensation for their last five years of employment multiplied by their years of credited service.

Actuarial Accrued Liability - The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2007. Significant actuarial assumptions used in determining the actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 8.40% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.0% annually for beneficiaries.

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE H - PENSION PLAN (CONTINUED)

GASB 25 INFORMATION (as of 12/31/07)

Actuarial Accrued Liability:

Retiree and beneficiaries currently receiving benefits	\$ 247,464
Terminated employees not yet receiving benefits	23,571
Non-vested terminated employees	0
Current employees:	
Accumulated employee contributions	
including allocated investment income	0
Employer financed	<u>615,628</u>
 Total Actuarial Liability	 \$ 886,663
Net assets available for benefits, at actuarial value	580,231
(Market Value is \$587,000)	<u> </u>
 Unfunded (overfunded) actuarial accrued liability	 <u>\$ 306,432</u>

GASB 27 INFORMATION (as of 12/31/07)

Fiscal year beginning	July 1, 2009
Annual required contributions (ARC)	\$ 39,840
Amortization factor used	0.055889

Contributions Required and Contributions Made - MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2007 were determined using the entry age normal actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years.

NOTE I - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

REQUIRED
SUPPLEMENTAL
INFORMATION

CITY OF CASPIAN
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year ended June 30, 2008

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning Fund Balance	\$ 194,510	\$ 194,510	\$ 194,510	\$ 0
Resources (Inflows)				
Property taxes	201,000	201,000	204,134	3,134
Federal grants	0	0	22,000	22,000
State shared revenues and grants	170,500	170,500	175,612	5,112
Fines and forfeitures	0	0	264	264
Charges for services	76,500	76,500	80,151	3,651
Interest and rentals	85,200	85,200	96,307	11,107
Sale of property	3,500	3,500	2,001	(1,499)
Reimbursements	0	0	184	184
Other	15,000	15,000	9,160	(5,840)
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 746,210	\$ 746,210	\$ 784,323	\$ 38,113
Charges to Appropriations (Outflows)				
General Government				
City council	\$ 2,000	\$ 2,000	\$ 3,872	\$ (1,872)
City manager	20,000	20,000	27,732	(7,732)
Treasurer	14,500	14,500	16,511	(2,011)
Tax administration	6,000	6,000	6,107	(107)
Clerk	7,000	7,000	6,294	706
Elections	1,500	1,500	3,701	(2,201)
Counsel	11,000	11,000	15,984	(4,984)
Audit	7,500	7,500	7,764	(264)
Buildings and grounds	25,000	25,000	41,195	(16,195)
Cemetery	9,000	9,000	0	9,000
Public Safety				
Police	60,200	60,200	67,244	(7,044)
Fire	21,000	21,000	17,512	3,488
Public Works				
General	113,000	113,000	100,212	12,788
Street lighting	13,000	13,000	17,430	(4,430)
Refuse collection and disposal	57,000	57,000	62,398	(5,398)
Recreation				
Community promotion	2,000	2,000	560	1,440
Parks and other	10,000	10,000	6,088	3,912
Fishing quarry	0	0	52,071	(52,071)
Trail extension	0	0	11,266	(11,266)
Employee Benefits				
Paid time off	30,000	30,000	27,144	2,856
Retirement	30,000	30,000	26,361	3,639
Insurance and taxes	92,000	92,000	87,378	4,622
Insurance				
General	20,000	20,000	17,259	2,741
Capital outlay	0	0	33,906	(33,906)
Transfers to other funds	0	0	1,500	(1,500)
TOTAL CHARGES TO APPROPRIATIONS	\$ 551,700	\$ 551,700	\$ 657,489	\$ (105,789)
BUDGETARY FUND BALANCE--ENDING	\$ 194,510	\$ 194,510	\$ 126,834	\$ (67,676)

CITY OF CASPIAN
BUDGETARY COMPARISON SCHEDULE
MAJOR STREET FUND
Year ended June 30, 2008

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning Fund Balance	\$ 37,652	\$ 37,652	\$ 37,652	\$ 0
Resources (Inflows)				
State shared revenues and grants	95,000	95,000	95,935	935
Interest earned	<u>0</u>	<u>0</u>	<u>110</u>	<u>110</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 132,652	\$ 132,652	\$ 133,697	\$ 1,045
Charges to Appropriations (Outflows)				
Public Works				
Construction	\$ 25,000	\$ 25,000	0	25,000
Routine maintenance	31,500	31,500	15,264	16,236
Street sweeping	1,000	1,000	3,607	(2,607)
Roadside maintenance	0	0	1,502	(1,502)
Traffic services	300	300	6,056	(5,756)
Winter maintenance	30,700	30,700	64,622	(33,922)
Administration	6,500	6,500	6,965	(465)
Transfer to other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>95,000</u>	\$ <u>95,000</u>	\$ <u>98,016</u>	\$ <u>(3,016)</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>37,652</u></u>	\$ <u><u>37,652</u></u>	\$ <u><u>35,681</u></u>	\$ <u><u>(1,971)</u></u>

CITY OF CASPIAN
BUDGETARY COMPARISON SCHEDULE
LOCAL STREET FUND
Year ended June 30, 2008

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance	\$ 21,858	\$ 21,858	\$ 21,858	\$ 0
Resources (Inflows)				
State shared revenues and grants	40,900	40,900	33,520	(7,380)
Interest earned	0	0	132	132
Transfer from other funds	<u>0</u>	<u>0</u>	<u>1,500</u>	<u>1,500</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 62,758	\$ 62,758	\$ 57,010	\$ (5,748)
Charges to Appropriations (Outflows)				
Public Works				
Construction	\$ 0	\$ 0	\$ 0	\$ 0
Routine maintenance	10,000	10,000	3,301	6,699
Street sweeping	900	900	5,069	(4,169)
Roadside maintenance	0	0	0	0
Traffic services	0	0	261	(261)
Winter maintenance	27,000	27,000	22,943	4,057
Administration	<u>3,000</u>	<u>3,000</u>	<u>4,642</u>	<u>(1,642)</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>40,900</u>	\$ <u>40,900</u>	\$ <u>36,216</u>	\$ <u>4,684</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u>21,858</u>	\$ <u>21,858</u>	\$ <u>20,794</u>	\$ <u>(1,064)</u>

CITY OF CASPIAN
BUDGETARY COMPARISON SCHEDULE
TAX INCREMENTING FINANCING FUND
Year ended June 30, 2008

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance	\$ 85,504	\$ 85,504	\$ 85,504	\$ 0
Resources (Inflows)				
Property taxes	60,000	60,000	58,944	(1,056)
Interest earned	<u>0</u>	<u>0</u>	<u>2,059</u>	<u>2,059</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 145,504	\$ 145,504	\$ 146,507	\$ 1,003
Charges to Appropriations (Outflows)				
Public Works				
Capital outlay	\$ 49,743	\$ 49,743	\$ 15,479	\$ 34,264
Other improvements	0	0	500	(500)
Community betterment	0	0	12,133	(12,133)
Debt service	<u>10,257</u>	<u>10,257</u>	<u>10,257</u>	<u>0</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>60,000</u>	\$ <u>60,000</u>	\$ <u>38,369</u>	\$ <u>21,631</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>85,504</u></u>	\$ <u><u>85,504</u></u>	\$ <u><u>108,138</u></u>	\$ <u><u>22,634</u></u>

CITY OF CASPIAN
MERS PENSION FUNDING AND STATISTICS
JUNE 30, 2008

SCHEDULE OF FUNDING PROGRESS

<u>ACTUARIAL VALUATION DATE</u>	<u>ACTUARIAL VALUE OF ASSETS</u>	<u>ACTUARIAL ACCRUED LIABILITY</u>	<u>UNFUNDED AAL (UAAL)</u>	<u>FUNDED RATIO</u>	<u>COVERED PAYROLL</u>	<u>UAAL AS A PERCENTAGE OF COVERED PAYROLL</u>
31-Dec-05	494,592	730,402	235,810	68%	201,146	117%
31-Dec-06	533,113	778,415	245,302	68%	206,206	119%
31-Dec-07	580,231	886,663	306,432	65%	212,869	144%

SCHEDULE OF EMPLOYER CONTRIBUTIONS:

<u>YEAR ENDED</u>	<u>ANNUAL REQUIRED CONTRIBUTION</u>	<u>PERCENTAGE CONTRIBUTED</u>
31-Dec-05	31,942	100%
31-Dec-06	30,862	100%
31-Dec-06	36,012	100%

THE INFORMATION PRESENTED ABOVE WAS DETERMINED AS PART OF THE ACTUARIAL VALUATION AT THE DATES INDICATED. ADDITIONAL INFORMATION AS OF THE LATEST ACTUARIAL VALUATION IS AS FOLLOWS:

ACTUARIAL COST METHOD	ENTRY AGE NORMAL
AMORTIZATION METHOD	LEVEL PERCENTAGE OF PAYROLL
AMORTIZATION PERIOD	30 YEARS, OPEN
ASSET VALUATION METHOD	5 YEAR SMOOTHED MARKET
ACTUARIAL ASSUMPTIONS	
INVESTMENT RATE OF RETURN	8.00%
PROJECTED SALARY INCREASES*	4.5% - 12.90%
*INCLUDES MERIT AND LONGEVITY INCREASES	0% - 8.40%
INFLATION	3% - 4%
COST OF LIVING ADJUSTMENTS	2.00%
MORTALITY TABLES	1994 GROUP ANNUITY

ADDITIONAL
INFORMATION

CITY OF CASPIAN
COMPARATIVE BALANCE SHEET
WATER SUPPLY SYSTEM FUND
June 30, 2008 and 2007

ASSETS	2008	2007
Current Assets:		
Cash	\$ 137,606	\$ 104,824
Accounts receivable	<u>12,871</u>	<u>18,530</u>
TOTAL CURRENT ASSETS	\$ 150,477	\$ 123,354
Restricted Assets - bond and interest redemption and bond reserve	\$ 78,480	\$ 96,135
Property and Equipment:		
Property and equipment	\$ 3,255,134	\$ 3,255,134
Less accumulated depreciation	<u>(971,361)</u>	<u>(889,808)</u>
NET PROPERTY AND EQUIPMENT	\$ 2,283,773	\$ 2,365,326
TOTAL ASSETS	<u>\$ 2,512,730</u>	<u>\$ 2,584,815</u>
LIABILITIES AND FUND EQUITY		
Current Liabilities:		
Account payable	\$ 966	\$ 597
Accrued payroll	749	528
Accrued interest	18,300	18,638
Current portion of long-term debt	<u>20,000</u>	<u>18,000</u>
TOTAL CURRENT LIABILITIES	\$ 40,015	\$ 37,763
Long-Term Debt:		
Revenue bonds	\$ 976,000	\$ 994,000
Less current portion included above	<u>(20,000)</u>	<u>(18,000)</u>
TOTAL LONG-TERM DEBT	\$ 956,000	\$ 976,000
TOTAL LIABILITIES	\$ 996,015	\$ 1,013,763
FUND EQUITY		
Contributed Capital:		
Federal (net of amortization)	\$ 1,329,725	\$ 1,392,299
Retained earnings:		
Reserved	\$ 78,480	\$ 96,135
Unreserved - undesignated	<u>108,510</u>	<u>82,618</u>
TOTAL RETAINED EARNINGS	\$ 186,990	\$ 178,753
TOTAL FUND EQUITY	\$ 1,516,715	\$ 1,571,052
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 2,512,730</u>	<u>\$ 2,584,815</u>

CITY OF CASPIAN
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
WATER SUPPLY SYSTEM FUND
Years ended June 30, 2008 and 2007

	<u>2008</u> <u>Actual</u>	<u>2007</u> <u>Actual</u>	<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
OPERATING REVENUES			
Charges for services:			
Customer sales	\$ 147,225	\$ 145,154	\$ 2,071
Water taps and other services	<u>1,075</u>	<u>1,146</u>	<u>(71)</u>
TOTAL OPERATING REVENUES	\$ 148,300	\$ 146,300	\$ 2,000
OPERATING EXPENSES			
Wages	\$ 27,320	\$ 24,147	\$ (3,173)
Employee benefits	26,454	23,144	(3,310)
Supplies	6,483	4,375	(2,108)
Purchased services	2,753	9,643	6,890
Equipment rental	6,095	3,077	(3,018)
Utilities	9,878	7,647	(2,231)
Other	1,773	575	(1,198)
Depreciation	<u>81,554</u>	<u>83,457</u>	<u>1,903</u>
TOTAL OPERATING EXPENSES	\$ 162,310	\$ 156,065	\$ (6,245)
OPERATING INCOME	\$ (14,010)	\$ (9,765)	\$ (4,245)
NON-OPERATING REVENUE (EXPENSE)			
Interest income	\$ 4,065	\$ 8,598	\$ (4,533)
Wellhead protection grant	0	3,742	(3,742)
Interest expense	<u>(44,393)</u>	<u>(45,203)</u>	<u>810</u>
TOTAL NON-OPERATING REVENUE (EXPENSE)	\$ (40,328)	\$ (32,863)	\$ (7,465)
NET INCOME	\$ (54,338)	\$ (42,628)	\$ <u>(11,710)</u>
Add depreciation of fixed assets acquired by capital grants that reduces contributed capital from grants	62,575	62,575	
Retained Earnings - beginning	<u>178,753</u>	<u>158,806</u>	
RETAINED EARNINGS - ENDING	\$ <u>186,990</u>	\$ <u>178,753</u>	

CITY OF CASPIAN
STATEMENT OF CASH FLOWS
WATER SUPPLY SYSTEM FUND
Years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 153,959	\$ 147,939
Payments to suppliers	(26,613)	(28,005)
Payments to or on behalf of employees	<u>(53,553)</u>	<u>(47,229)</u>
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	\$ 73,793	\$ 72,705
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on capital debt	\$ (18,000)	\$ (18,000)
Interest paid on revenue bonds	(44,731)	(45,539)
Capital grant proceeds	0	3,742
Purchases of capital assets	0	0
Funding of restricted accounts	<u>17,655</u>	<u>(7,772)</u>
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (45,076)	\$ (67,569)
CASH FLOWS FROM INVESTING ACTIVITIES - Interest	\$ <u>4,065</u>	\$ <u>8,598</u>
NET INCREASE (DECREASE) IN CASH	\$ 32,782	\$ 13,734
Cash and equivalents - beginning	<u>104,824</u>	<u>91,090</u>
CASH AND EQUIVALENTS - ENDING	\$ <u><u>137,606</u></u>	\$ <u><u>104,824</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (14,010)	\$ (9,765)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation	81,554	83,457
Change in Assets and Liabilities		
Receivables - net	5,659	1,639
Accounts payable	369	(2,688)
Accrued payroll	<u>221</u>	<u>62</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u><u>73,793</u></u>	\$ <u><u>72,705</u></u>

SCOTT R. KENNEY

Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS

The Honorable Mayor and Council
City of Caspian
Caspian, MI 49915

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Caspian, Michigan (City) as of and for the year ended June 30, 2008, which collectively comprise the City of Caspian, Michigan's basic financial statements and have issued my report thereon dated August 26, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States.

COMPLIANCE

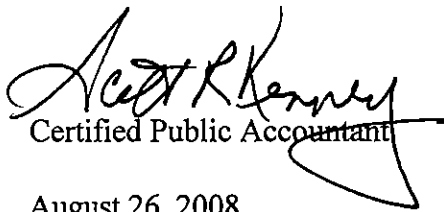
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing my audit, I considered the City's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be

detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. However, I noted other matters involving the internal control over financial reporting that I have reported to the management of the City in a separate letter dated August 26, 2008.

This report is intended solely for the information and use of the audit committee, management, City Council and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.


Certified Public Accountant

August 26, 2008

SCOTT R. KENNEY

Certified Public Accountant

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City Council
City of Caspian
301 East Caspian Avenue
Caspian, MI 49915

In conjunction with the audit of the general purpose financial statements of the City of Caspian (City) as of and for the year ended June 30, 2008, I have reviewed the City's accounting policies and procedures and systems of internal control. My audit was conducted primarily to enable me to formulate an opinion on the City's financial statements and accordingly, would not disclose all weaknesses in the system which may exist. My review disclosed certain areas in which I believe more effective internal control or increased efficiency may be achieved. This letter is intended to summarize my findings and present my overall conclusions and recommendations. It has been prepared solely for the information of the City Council and management and should not be presented or quoted to anyone outside of the City because of the possibility of misunderstanding by other persons who may not be aware of the objectives and limitations of internal controls and my study and evaluation thereof. Statement on Audit Standard Number 112 (SAS 112) requires that I inform the City of all control deficiencies and those control deficiencies be split into one of two types. The two types of control deficiencies are "significant deficiencies" and "material weaknesses". A significant deficiency is defined as a control deficiency that has more than a remote likelihood that the entity's ability to initiate, authorize, record, process or report financial data in compliance with accounting principles generally accepted in the United States of America will be adversely affected and that such affect will be more than inconsequential. A material weakness is defined as a significant deficiency(ies) that could have a material affect on the financial statements. The first comment is repeated from the prior year's letter of comments and recommendations.

SIGNIFICANT DEFICIENCIES

1. **OBSERVATION** - The process of transferring data from the daily equipment sheets to the monthly hour summary revealed several errors. The process that is currently being used is manually completed, cumbersome and time consuming.

RECOMMENDATION - I recommend that the City evaluate the method that is currently being used and automate the process to yield timely, accurate and complete equipment rental information.

2. **OBSERVATION** - The City pays the employees periodically for "standby". These checks have been paid through accounts payable and not taxed.

2. **RECOMMENDATION** - I recommend that all compensation paid to employees be paid through the payroll system with appropriate tax deductions and reported to the employee and government at the appropriate intervals.

3. **OBSERVATION** - The minutes of the City Council meetings do not include the amount of the disbursements approved or a listing of the disbursements.

RECOMMENDATION - To strengthen internal control, I recommend that minutes in the future include the listing of disbursements approved by the Council or the total amount of the listing approved with the listing retained for future comparison.

4. **OBSERVATION** - The equipment rental system in place at the City progressed markedly during the year. The recording of equipment time used during "call outs", however, was not properly recorded in the system.

RECOMMENDATION - I recommend that the City modify its tracking system for equipment used during "call outs" to capture all of the costs associated with equipment rented by each fund.

This change was implemented upon bringing this observation to management's attention.

5. **OBSERVATION** - The posting of interest earned on Certificates of Deposit (CD's) has occurred only at the end of the fiscal year. This results in the carrying value of CD's to be understated on the financial records during the year.

RECOMMENDATION - I recommend that interest earned on CD's be posted to the financial records as the interest is paid or credited by the financial institutions.

6. **OBSERVATION** - The commingled checking account was adjusted at the end of the fiscal year to make the financial records match the adjusted bank balance without identifying the cause of the errors. The account was examined to identify when the account did not reconcile and the reasons for the balance being improperly stated. The primary errors were (1) bad checks being received from utility customers not adjusted on the customer's account and (2) amounts directly debited for the City's utility payments differed in amount from the bills that were received in support of the items.

RECOMMENDATION - I strongly recommend that the commingled cash account be reconciled to the general ledger at the conclusion of every month with all reconciling items listed and described.

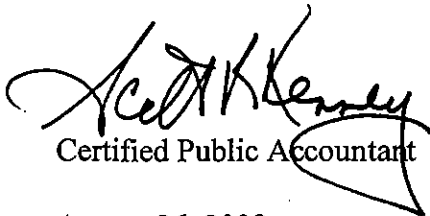
7. **OBSERVATION** - The credit card that the City has for the Manager's use contains the Manager's home address rather than that of the City. In addition, while support for the test items selected were provided to me, the statements do not have supporting documents attached.

7. **RECOMMENDATION** - I recommend that the address on the account be changed so statements are received at the City. In addition, I recommend that support for each item on the credit card statement be maintained with the statement.

MATERIAL WEAKNESSES - None.

I would like to thank the City for allowing me to conduct the audit of the financial statements and I would especially like to thank Rich and Sandy for their assistance during the audit.

If the City would like my assistance in implementing any of the above recommendations or would like to discuss any of these items further, I am willing to assist you in any way that I can.


Certified Public Accountant

August 26, 2008